

Statement of the need for, expected impact, and intended operation of the amended Commercial Paper Exemption Notice

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(DRAFT)

Table of Contents

1	Introduction	2
2	Statement of the need.....	3
3	Statement of expected impact.....	4
4	Statement of intended operation	8
5	Conclusion	9

1 Introduction

- 1.1 The Prudential Authority (PA), established under the Financial Sector Regulation Act, 2017, is mandated to promote and enhance the safety and soundness of financial institutions. In pursuit of its mandate, the PA is proposing amendments to the 1994 Commercial Paper Exemption Notice (CP Exemption Notice), which designates certain activities as not constituting “the business of a bank” under the Banks Act, 1990.
- 1.2 Since its publication, the CP Exemption Notice has remained unchanged, despite significant changes in market practices and regulatory frameworks. In particular, the original minimum denomination threshold of R1 million for commercial paper issuance has become increasingly misaligned with current regulatory interpretations and market realities. Directive 8 of 2023¹, issued by the PA, interprets retail exposure as any exposure below R12.5 million. This interpretation has prompted a review of the CP Exemption Notice to ensure consistency in regulatory instruments issued by the PA to mitigate the risk of regulatory arbitrage.
- 1.3 The proposed amendments seek to recalibrate the minimum denomination thresholds for commercial paper and debt securities to R12.5 million. This adjustment is intended to reinforce the wholesale nature of these instruments, ensuring that issuances are targeted at institutional and sophisticated investors rather than the general public.
- 1.4 In addition, the proposed amendments aim to support financial soundness by clarifying the term structure of commercial paper, strengthening disclosure requirements, and introducing a new regulatory return for supervisory and statistical purposes. These reforms are informed by international best practices and are designed to improve transparency, compliance, and market integrity.
- 1.5 The PA has considered the potential implications of the changes and has conducted consultation process to solicit feedback from market participants. A questionnaire was issued to the industry to assess the expected impact of the proposed amendments on market activity, liquidity, operational processes, and accessibility. Respondents were requested to provide transaction data covering the

¹ [Directive 8 of 2023](#)

period from 1 July 2022 to 30 June 2025, with reference data as at 30 June 2025, and to submit their responses by 12 September 2025.

- 1.6 This report provides the rationale for the proposed amendments and considers feedback received during the informal consultation process to inform the finalisation of the revised CP Exemption Notice.

2 Statement of the need

- 2.1 In 1994, the PA issued the CP Exemption Notice to enable issuers to raise short-term funding through the issuance of commercial paper. This activity is exempt from the Banks Act, provided certain conditions are met, as it is not considered to constitute the “business of a bank” under the Act. The CP Exemption Notice outlines minimum requirements aimed to support the development of South Africa’s capital markets by providing a flexible funding mechanism without weakening investor protection, specifically retail investors.
- 2.2 The objective of the CP Exemption Notice is to enable corporates to access the domestic capital market by issuing commercial paper to raise short term funding from institutional investors to fund business activities. However, evolving market practices and the increased focus on financial stability have necessitated a comprehensive review of the commercial paper framework. The CP Exemption Notice has not been updated since its publication in 1994.
- 2.3 The PA has identified a need to revise the minimum denomination thresholds for commercial paper and debt securities to ensure consistency across regulatory instruments. The minimum denomination threshold of R1 million has remained unchanged since 1994. In light of Directive 8 of 2023, which defines retail exposure as any exposure below R12.5 million, the PA proposed to revise the minimum denomination for commercial paper to R12.5 million. This alignment is intended to ensure consistency across regulatory instruments and to reinforce the intention of targeting wholesale funding.
- 2.4 In addition, the PA has observed instances of regulatory arbitrage and market misuse, including the use of commercial paper for long-term funding purposes and inconsistencies in disclosure and compliance. These practices may pose risks to

the safety and soundness of the commercial paper market and its market participants.

- 2.5 The proposed amendments also seek to clarify the term structure of commercial paper issuance, limiting maturity to 366 days, and to introduce enhanced disclosure requirements and a quarterly regulatory return for supervisory purposes.
- 2.6 To address these concerns, the PA proposes amendments to the CP Exemption Notice that include revised minimum denominations, enhanced disclosure requirements, and a new regulatory return for monitoring purposes. These changes aim to strengthen the regulatory framework, promote transparency, and ensure that commercial paper issuance remains consistent with its intended purpose. In light of market developments, The PA further introduced, within the scope of the CP Exemption Notice, a debt securities framework that may be issued for long-term funding, with maturities of up to 30 years.
- 2.7 The amendments aim to strengthen the regulatory framework, promote transparency, and ensure that commercial paper and debt securities issuance remain consistent with its intended purpose. The revised CP Exemption Notice will support the mandate of the PA by promoting financial soundness within the financial sector, in particular capital markets.

3 Statement of expected impact

- 3.1 Under this section of the Statement, the impact, benefits, and areas of concern regarding the proposed increase in minimum denominations for commercial paper and debt securities are analysed. The analysis is structured according to categories of buyers, sellers, and intermediaries.

Scope and sample of the impact study

- 3.2 The PA issued for informal consultation a questionnaire to solicit input from 15 market participants. The purpose of the questionnaire was to assess the potential impact of increasing the minimum denomination for commercial paper to R12.5 million and for debt securities. Responses were received from 12 commentators which included asset managers, issuers, intermediaries, and legal advisors. The insights presented below reflect the views of those who submitted responses and do not represent the aggregate position of the industry.

- 3.3 The following challenges and concerns of implementing amended CP Exemption Notice in South Africa are noted:

Impact on buyers of commercial paper and debt securities

- 3.3.1 ***Reduced market access and participation:*** respondents indicated that the proposed thresholds would exclude a substantial portion of their current trading activity. Some respondents noted that a significant proportion of their commercial paper and debt securities trades were below R12.5 million. The proposed amendments would therefore exclude a substantial portion of current market activity.
- 3.3.2 ***Portfolio diversification constraints:*** it was noted that the proposed increases would limit the ability to manage client portfolios, particularly for smaller mandates. The inability to invest in smaller denominations would result in more concentrated positions, reduce flexibility, and potentially drive investors into pooled vehicles that may not align with risk-return profiles.
- 3.3.3 ***Liquidity and pricing implications:*** concerns were raised that the proposed increases may result in reduced liquidity in the secondary market, making it more challenging to actively manage portfolios and determine fair prices. Respondents were of the view that the proposed thresholds would increase concentration risk and reduce the number of investment options.
- 3.3.4 ***Operational and compliance burden:*** the need for system changes and policy revisions to accommodate the proposed thresholds were highlighted. These include updates to compliance tools, liquidity risk frameworks, and internal account minimums to ensure fair treatment of clients.
- 3.3.5 ***Allocation challenges:*** respondents highlighted that often instrument purchases are made in bulk then allocated across multiple portfolios. The proposed increase in thresholds would remove this flexibility, undermining effective and diversified portfolio construction, mandate compliance, and managing cash flows.
- 3.3.6 ***Impact on benchmark tracking:*** respondents noted that the proposed thresholds would present challenges in tracking benchmarks particularly for smaller mandates creating challenges for institutional investors to achieve diversified exposure and manage member benefits prudently.

- 3.3.7 ***Treating clients fairly:*** Emphasis was placed on the importance of equitable allocation across funds to ensure consistent performance. The proposed thresholds would impair fair allocation and create unnecessary performance discrepancies across mandates.

Impact on issuers of commercial paper and debt securities

- 3.3.8 ***Reduced investor base and demand:*** respondents noted that majority of their investor allocations fall below the proposed thresholds and would exclude a large pool of sophisticated investors effectively reducing the demand and increasing funding costs. The proposed amendments would therefore materially reduce the pool of eligible investors.
- 3.3.9 ***Higher funding costs:*** higher funding costs are anticipated due to reduced competition and investor diversity. There may be a need to offer higher yields to attract investment which may increase the cost of capital, particularly for short-term instruments.
- 3.3.10 ***Risk of regulatory arbitrage and informal markets:*** concerns were raised that the proposed changes could encourage market participants to seek riskier or unregulated investments, potentially driving domestic investors into international markets. This may weaken investor protection and undermine the integrity of the regulatory framework.
- 3.3.11 ***Issuance strategy constraints:*** respondents noted that the proposed thresholds would limit their ability to structure tranches for different investor classes and may force them to abandon smaller, tailored offerings. Increased cost and complexity of issuance were also highlighted.

Impact on intermediaries of commercial paper and debt securities

- 3.3.12 ***Transaction volume decline:*** intermediaries indicated that the proposed increases would reduce the number of smaller listings, which form the core of their offering to small and medium-sized entities. This would negatively impact their ability to facilitate market access for these issuers.
- 3.3.13 ***Operational complexity and compliance costs:*** legal and advisory firms noted that the proposed amendments would increase legal and compliance costs for

issuers and intermediaries. The need to restructure programmes and verify disclosures would impose additional burdens.

3.3.14 ***Investor segmentation and market structure concerns:*** concerns were raised about the conceptual alignment of the proposed thresholds with international norms. The thresholds are significantly higher than those used in comparable international jurisdictions such as the European Union (EU) and United Kingdom (UK), which may deter foreign investment and reduce competitiveness.

3.3.15 ***Terminology and regulatory scope concerns:*** concerns were raised about the use of the term “denomination,” as it relates to secondary market trading. It was recommended that the PA refer to “minimum issuance amount” to avoid confusion, particularly as the CP Exemption Notice is intended to govern primary market activity.

3.4 Following the public consultation process and the informal survey conducted in August 2025, the PA has considered stakeholder feedback on the proposed amendments to the CP Exemption Notice.

3.5 Following the feedback received, it was concluded to define the minimum denomination as the minimum aggregate nominal value of commercial paper or debt securities when originally issued to the general public by the issuer of commercial paper or debt securities. This provision shall not be construed to apply to any subsequent purchase, sale, or transfer of such commercial paper or debt securities. This approach aligns with Directive 8 of 2023 and aims to reinforce the wholesale nature of these instruments while protecting retail investors and reducing regulatory arbitrage.

3.6 The revised definition of minimum denomination indicates that the primary policy focus of the PA is on establishing the minimum issuance amount for commercial paper and debt securities, rather than regulating activities within the secondary market. Additionally, the remainder of the amended CP Exemption Notice sets out requirements intended to regulate commercial paper offerings, as follows:

3.6.1 All commercial paper issuances must be listed on a licensed exchange or dematerialised and settled through a licensed central securities depository.

- 3.6.2 Issuers are required to be either listed companies or companies with a net asset valuation of at least ZAR100 million.
- 3.6.3 Issuers must comply with comprehensive and audited disclosure obligations.
- 3.6.4 The definition of institutional investors is specified to ensure appropriate participation of sophisticated market participation.
- 3.7 The PA has also introduced enhanced disclosure requirements, a quarterly regulatory return, and clarified the term structure of commercial paper issuance. These measures are intended to improve transparency, support effective supervision, and ensure consistency with the intended purpose of short-term wholesale funding.

4 Statement of intended operation

- 4.1 Once finalised, the amended CP Exemption Notice will apply to all issuers of commercial paper and debt securities operating within the scope of the Banks Act and the Financial Sector Regulation Act. The revised Notice will replace the CP Exemption Notice issued in 1994 and introduce the updated regulatory requirements governing the issuance of commercial paper and debt securities in South Africa.
- 4.2 It is the responsibility of issuers, arrangers, and other relevant parties to ensure compliance with the revised requirements, including the proposed minimum denominations of R12.5 million for commercial paper and debt securities at issuance.
- 4.3 The revised Notice will introduce enhanced disclosure obligations, a new quarterly regulatory return for monitoring purposes, and an explicit maturity term structure for commercial paper. These measures aim to improve transparency, support effective supervision, and ensure that commercial paper issuance remains consistent with its intended purpose of short-term wholesale funding, while ensuring provisions enable long-term funding through debt securities.
- 4.4 Following implementation, the effectiveness of the amended CP Exemption Notice will be monitored on a continuous basis. The PA will also consider any unintended consequences that may arise and may make further adjustments to the regulatory framework where necessary.

5 Conclusion

- 5.1 This report outlines the rationale for revising the minimum denomination thresholds for commercial paper and debt securities under the CP Exemption Notice. The proposed amendments are intended to enhance regulatory coherence, reduce the risk of regulatory arbitrage, and ensure that commercial paper issuance remains aligned with its intended purpose of wholesale funding.
- 5.2 By increasing the minimum issuance to R12.5 million for commercial paper and debt securities, the PA seeks to reinforce the wholesale nature of these instruments, promote financial system stability, and ensure consistency across regulatory instruments. Additionally, the updated definition of minimum denomination confirms that the primary policy focus of the PA pertains to the minimum issuance amount for commercial paper, rather than transactions in the secondary market.
- 5.3 The revised CP Exemption Notice, once implemented, will contribute to a more transparent, stable, and resilient commercial paper market, in line with the broader regulatory objectives of the PA.